

# Inspector General

United States  
Department of Defense



DoD Needs to Improve High Dollar Overpayment  
Review and Reporting

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## Acronyms and Abbreviations

BAM	Business Activity Monitoring
CDS	Contractor Debt System
DeCA	Defense Commissary Agency
DFAS	Defense Finance and Accounting Service
EO	Executive Order
GAO	Government Accountability Office
IPIA	Improper Payments Information Act of 2002
IPOD	Improper Payments Online Database
OIG	Office of the Inspector General
OMB	Office of Management and Budget
PCS	Permanent Change of Station
SAVES	Standard Automated Voucher Examination System
SBR	Statement of Budgetary Resources
TMA	TRICARE Management Activity





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March 16, 2011

MEMORANDUM FOR UNDER SECRETARY OF DEFENSE (COMPTROLLER)/  
CHIEF FINANCIAL OFFICER  
DIRECTOR, DEFENSE FINANCE AND ACCOUNTING  
SERVICE  
CHIEF OF ENGINEERS, U.S. ARMY CORPS OF  
ENGINEERS  
DIRECTOR, TRICARE MANAGEMENT ACTIVITY

SUBJECT: DoD Needs to Improve High Dollar Overpayment Review and Reporting  
(Report No. D-2011-050)

We are providing this report for review and comment. The first quarterly report on DoD High Dollar Overpayments, prepared by the Office of the Under Secretary of Defense (Comptroller)/Chief Financial Officer, did not accurately represent the overpayments made by the Department. We considered management comments on a draft of this report when preparing the final report.

DoD Directive 7650.3 requires that recommendations be resolved promptly. The Deputy Chief Financial Officer for the Office of the Under Secretary of Defense (Comptroller)/Chief Financial Officer comments were partially responsive. Therefore, we request that the Under Secretary of Defense (Comptroller)/Chief Financial Officer provide additional comments on Recommendations 1.a.3 and 1.d. by April 15, 2011. The Acting Director, Standards & Compliance for Defense Finance and Accounting Service comments were partially responsive. Therefore, we request that the Director, Defense Finance and Accounting Service provide additional comments on Recommendations 2.a, 2.b, 2.c, 2.e, and 2.f. by April 15, 2011. We received comments from the Assistant Secretary of Defense (Health Affairs) too late to include in the final report. Therefore, if the Assistant Secretary does not submit additional comments by April 15, 2011, we will consider the comments received as the response to the final report.

Please provide comments that conform to the requirements of DoD Directive 7650.3. If possible, please send a .pdf file containing your comments to [aud-colu@dodig.mil](mailto:aud-colu@dodig.mil). Copies of the management comments must contain the actual signature of the authorizing official. We are unable to accept the /Signed/ symbol in place of the actual signature. If you arrange to send classified comments electronically, you must send them over the SECRET Internet Protocol Router Network (SIPRNET).

We appreciate the courtesies extended to the staff. Please direct questions to me at (614) 751-2913.

Amy J. Frontz, CPA  
Assistant Inspector General  
DoD Payments and Accounting Operations



# Results in Brief: DoD Needs to Improve High Dollar Overpayment Review and Reporting

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## What We Did

Our objective was to review DoD compliance with Executive Order 13520, "Reducing Improper Payments," November 20, 2009. Specifically, we reviewed DoD's methodology and support for identifying, recovering, preventing, and reporting high dollar overpayments. We also conducted interviews of key personnel involved with preparing DoD's first quarterly report.

## What We Found

The First Quarter FY 2010 High Dollar Overpayments Report, issued by the Under Secretary of Defense (Comptroller)/Chief Financial Officer was inaccurate and incomplete. Specifically, DoD did not review approximately \$167.5 billion of the \$303.7 billion in gross outlays for high dollar overpayments. Additionally, some overpayments were not reported, and the Overpayments Report did not include sufficient information about recoveries and corrective actions. The Overpayments Report was inaccurate and incomplete because the Under Secretary of Defense (Comptroller)/Chief Financial Officer and the Director, Defense Finance and Accounting Service, did not develop a sound methodology or perform adequate oversight for collecting and reporting comprehensive data. Unless the Under Secretary of Defense (Comptroller)/Chief Financial Officer and Director, Defense Finance and Accounting Service, take action to improve the data collection methodology and oversight, DoD will continue to understate the Department's high dollar overpayments and error rate.

## What We Recommend

We recommend that the Under Secretary of Defense (Comptroller)/Chief Financial Officer develop a methodology to ensure adequate coverage and oversight of DoD high dollar overpayments reporting including:

- steps to perform a reconciliation of all DoD outlays reviewed for improper payments to the Statement of Budgetary Resources;
- development of procedures to ensure that all overpayments are reviewed for high dollar overpayments; and
- disclosure of payment areas not reviewed for high dollar overpayments.

We recommend the Director, Defense Finance and Accounting Service:

- develop procedures to statistically sample commercial pay entitlement systems; and
- develop internal controls to ensure only entitled individuals with valid Social Security numbers receive travel payments.

## Management Comments and Our Response

The Deputy Chief Financial Officer, Under Secretary of Defense (Comptroller)/Chief Financial Officer and the Acting Director, Standards & Compliance for Defense Finance and Accounting Service, provided comments in response to the report. The comments were partially responsive. Therefore, we request additional comments by April 15, 2011. Please see the recommendations table on the back of this page for details.

## Recommendations Table

<b>Management</b>	<b>Recommendations Requiring Comment</b>	<b>No Additional Comments Required</b>
Under Secretary of Defense (Comptroller)/Chief Financial Officer	1.a.3, 1.d	1.a.1, 1.a.2, 1.a.4, 1.b, 1.c
Director, Defense Finance and Accounting Service	2.a, 2.b, 2.c, 2.e, 2.f	2.d

**Please provide comments by April 15, 2011.**

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# Introduction

## Objective

The objective of the audit was to review DoD compliance with the Executive Order (EO) 13520, "Reducing Improper Payments," November 20, 2009. The EO required the head of each agency to publish a quarterly report on high dollar overpayments. See Appendix A for a discussion of the audit scope and methodology and a discussion of prior coverage related to the objective. See Appendix B for a copy of the DoD "First Quarter FY 2010 High Dollar Overpayments Report," (the Overpayments Report) issued by the Under Secretary of Defense (Comptroller)/Chief Financial Officer (the Comptroller).

## Background

EO 13520 requires that within 180 days of the EO, and quarterly thereafter, the head of each agency must submit to the Office of the Inspector General (OIG), Council of Inspectors General on Integrity and Efficiency, and make available to the public a report on:

- high dollar overpayments identified;
- high dollar overpayments recovered; and
- actions to prevent high dollar overpayments.

EO 13520 implementing guidance<sup>1</sup> defines a high dollar improper payment as any overpayment that is in excess of 50 percent of the correct amount of the intended payment where:

- the payment to an individual exceeds \$5,000 as a single payment or in cumulative payments for the quarter; or
- the payment to an entity exceeds \$25,000 as a single payment or in cumulative payments for the quarter.

EO 13520 also requires the agency Inspector General to review agency improper payment reports and provide the agency head with recommendations, if any, for modifying the agency's methodology, improper payment reduction plans, program access and participation plans, corrective action plans, or internal controls.

DOD's risk of making improper payments was high. We based the high level of risk on Defense Finance and Accounting Service (DFAS) self-identified control deficiencies and

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<sup>1</sup> Office of Management and Budget (OMB) Circular A-123, "Management's Responsibility for Internal Control," Appendix C, "Requirements for Effective Measurement and Remediation of Improper Payments," revised March 22, 2010.



prior assessments by the Government Accountability Office (GAO) and the DoD OIG. See Appendix C for a discussion on the risk assessment.

## **Review of Internal Controls**

We determined that internal control weaknesses in the office of the Comptroller review and reporting of improper payments existed as defined by DoD Instruction 5010.40, “Managers’ Internal Control Program (MICP) Procedures,” July 29, 2010. We found that the Comptroller did not review a significant portion of its annual outlays for improper payments. We also found that the DFAS did not have adequate oversight of the recalls, offsets, and rejects commonly used to correct improper payments. We will provide a copy of the report to the senior official responsible for internal controls in office of the Comptroller and DFAS.

## **Finding. The Under Secretary of Defense (Comptroller)/Chief Financial Officer Did Not Comply With the Intent of Executive Order 13520**

The “First Quarter FY 2010 High Dollar Overpayments Report,” (Overpayments Report) issued by the Comptroller was inaccurate and incomplete. Specifically, DoD did not review approximately \$167.5 billion of the \$303.7 billion in gross outlays for high dollar overpayments. Additionally, some overpayments were not reported, and the Overpayments Report did not include sufficient information about recoveries and corrective actions. The Overpayments Report was inaccurate and incomplete because the Comptroller and the Defense Finance and Accounting Service (DFAS) did not develop a sound methodology or perform adequate oversight for collecting and reporting comprehensive data. Unless the Comptroller and DFAS take action to improve the data collection methodology and oversight, DoD will continue to understate the Department’s high dollar overpayments and error rate.

### **What the Executive Order Required DoD to Report**

EO 13520 required DoD to provide a quarterly report on three elements:

- high dollar overpayments identified;
- high dollar overpayments recovered; and
- actions to prevent high dollar overpayments.

### **High Dollar Overpayments Identified Were Incomplete**

In response to the first element required by the EO 13520, identification of high dollar overpayments, the Comptroller submitted his first Overpayments Report to the DoD OIG on July 12, 2010. We examined the Overpayments Report and concluded that the high dollar overpayments reported were not based on a complete examination of all DoD payments. The Comptroller reported gross outlays of \$303.7 billion in the First Quarter FY 2010 DoD Statement of Budgetary Resources (SBR).<sup>2</sup> The Comptroller and DFAS did not review \$167.5 billion of the Department’s \$303.7 billion in gross outlays.

According to the Comptroller, DFAS disbursed all of the high dollar payments identified in the quarterly Overpayments Report. The Comptroller stated that no high dollar overpayments were identified by any other disbursing activities. The table summarizes the overpayments in the Overpayments Report.

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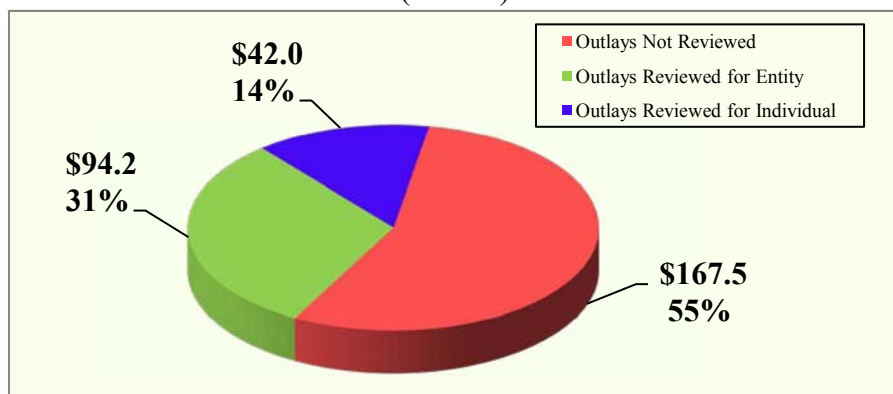
<sup>2</sup> The SBR is reported in the DoD Agency Financial Report to outline the Department’s total budget authority, obligations, and outlays. The SBR gross outlays represent the total amount of payments made by the DoD during a given time period. This payment information is reported quarterly and annually to ensure budget transparency and reporting completeness

**Table. Summary of First Quarter FY 2010 DoD High Dollar Overpayments Report**

DoD Payment Programs	Number of Overpayments	Overpayment Amount
Individual		
Civilian Pay	22	\$202,608
Military Retirement Pay	9	64,268
<b>Individual Sub Total:</b>	<b>31</b>	<b>266,876</b>
Entities (Contractor)	168	49,818,099
<b>Total Overpayments:</b>	<b>199</b>	<b>\$50,084,975</b>

DFAS reviews excluded approximately 55 percent of DoD total first quarter FY 2010 payments from the high dollar review. DFAS reviewed \$94.2 billion of commercial pay outlays for entity high dollar overpayments. Additionally, DFAS and other DoD components reviewed \$42.0 billion of outlays to individuals for high dollar overpayments. The Comptroller did not require DFAS or the other DoD components to examine the remaining \$167.5 billion of first quarter FY 2010 outlays, including Military Health Benefits payments. The figure illustrates the total DoD outlays and the significant percentage of high dollar overpayments not reviewed during the first quarter.

**Figure. Outlays for First Quarter FY 2010**  
(Billion)



A Comptroller official stated that DoD could not reconcile program outlays to the quarterly or annual SBR. Additionally, DFAS officials stated in a Self-Identified Deficiency Report that the amount of payments reviewed did not correlate to total outlays on the SBR.

DoD's inability to identify and reconcile total payments to the SBR negatively affected the reliability and completeness of any measurements, estimates, or reviews for improper payments. Additionally, the Overpayments Report did not accurately portray DoD's risk

*...the Overpayments Report did not accurately portray DoD's risk of high dollar overpayments.*

of high dollar overpayments. The lack of a reconciliation of the universe of payments made it more probable that the Comptroller misrepresented and understated the Department's high dollar overpayments and error rate.

## **DFAS and USACE Did Not Review All Contract Entitlement Systems**

DFAS and the United States Army Corps of Engineers, Civil Works, did not review all contract entitlement systems for high dollar overpayments. This occurred because DoD did not reconcile the universe of payments to ensure that all systems were reviewed for high dollar overpayments. The unreconciled universe led to significant missed opportunities to identify overpayments in major payment systems. For example, there were six prominent DoD payment systems whose \$9.5 billion in payments were not reviewed for overpayments. Specifically, DFAS did not review approximately \$2.2 billion in payments from the five entitlement systems:

- College and University Financial System (CUFS);
- Defense Agency Initiative (DAI);
- Financial Accounting and Budget System (FABS);
- Army General Fund Enterprise Business System (GFEB); and
- Standard Automated Voucher Examination System (SAVES).

In addition to the five systems not reviewed by DFAS, the United States Army Corps of Engineers, Civil Works, made its own commercial payments outside of DFAS using the Corps of Engineers Financial Management System. However, the Army Corps of Engineers had not completed its random statistical sample of approximately \$7.3 billion of commercial payments made from the Corps of Engineers Financial Management System in time for inclusion in the Overpayments Report.

## **Weaknesses in the DFAS Consolidation Methodology**

We also identified significant weaknesses in the consolidated information and methodology DFAS used to compile its list of commercial overpayments. DFAS relied on data entered into the Contractor Debt System (CDS) and the Improper Payments

*...six entitlement systems, reporting approximately \$8.7 billion in first quarter total outlays, did not report improper payment information to IPOD.*

Online Database (IPOD) to compile its overpayments. However, not all of the DoD commercial payment systems reported improper payment information to the CDS or IPOD. DFAS records showed that six entitlement systems, reporting approximately \$8.7 billion in

first quarter total outlays, did not report improper payment information to IPOD.

One of the entitlement systems that created improper payments, but was not reported in IPOD was the Standard Automated Voucher Examination System (SAVES).

SAVES is the entitlement system used for making payments for the Defense Commissary Agency (DeCA). DFAS Columbus personnel who worked on the system provided evidence of significant overpayments that were not reported. For example, supporting

documentation showed that on November 24, 2009, DFAS made a payment of \$109,089.96 to the Fort James Operating Company instead of the correct amount of \$9,096.36, resulting in an overpayment of \$99,993.60. DeCA documents showed that the overpayment was the result of a "Receiving Quantity Error." DeCA personnel stated that they did not know how the error occurred and verified that the payment amount should have been \$9,096.36. DeCA personnel further stated that they learned of the improper payment from the vendor. Following notification of the overpayment, on February 4, 2010, DeCA performed an offset to reclaim the overpaid funds.

The SAVES overpayment was more than the OMB reporting threshold of \$25,000 and at least 50 percent more than the correct amount. The reporting error occurred because DFAS Columbus did not capture SAVES improper payment information in IPOD. Specifically, the IPOD administrator did not ensure that SAVES reported improper payment information for inclusion in IPOD. The lack of reporting caused DFAS to omit the amount from its high dollar improper payment review. This reporting error was also one of several indicators that the Comptroller understated entity pay high dollar overpayments in the Overpayments Report.

The methodology DFAS used to identify and report high dollar overpayments also needs improvement. DFAS summarized overpayments by contractor before determining whether the payment met the high dollar threshold. This caused DFAS to exclude the reporting of some very high dollar transactions. For example, DFAS excluded a \$354,779 overpayment from the Overpayments Report. The individual overpayment initially met the high dollar reporting criteria; however, DFAS combined the transaction with eight other overpayments made to the same contractor. Once combined, the total overpayment amount did not exceed the 50 percent error threshold stipulated by OMB.

### **DFAS Did Not Review Recalls, Offsets, and Rejects for Overpayments**

DFAS reported that none of the entitlement systems reviewed for entity high dollar overpayments included a review of corrections made using recalls, offsets, and rejects. The following briefly describes DFAS processes for correcting overpayments.

- Recalls correct overpayments. In the case of a recall, DFAS attempts to withdraw an overpayment from the contractor's bank account.
- Offsets occur because of an overpayment. Rather than issuing a demand letter, the amount of the overpayment is deducted from the next payment to that contractor.
- Rejects are electronic funds transfers not accepted by the receiving bank. These rejects are indicative of overpayments and can occur for a variety of reasons, such as a closed account, or the existence of non-matching information between the payment and the account holder. DFAS corrects the rejected overpayment and disburses the updated payment information.

The necessity for executing recalls, offsets, and rejects to correct overpayments indicates the possibility of a significant amount of overpayments. However, DFAS did not keep statistics or reports on these corrections. As a result, the Comptroller did not have



visibility over corrections made during or immediately after payment, and information about them was not collected and reported.

### ***Incomplete Review of Collections from Individuals for High Dollar Overpayments***

DFAS did not review or provide information on all collections from individuals. DFAS processed most of the payments DoD made to individuals including civilian, military, travel, and retired and annuitant payments.

**Civilian Pay Collections.** DFAS identified 1,211 civilian pay collections (debts). These debt amounts, totaling \$7.9 million, were in excess of the OMB reporting threshold. However, DFAS did not review all of the 1,211 collections for high dollar overpayments. Instead, DFAS randomly selected 110 civilian pay collections, totaling \$0.6 million, for review. The review identified 22 collections that met the requirements of a high dollar overpayment and needed to be reported. However, this process was limited to a small sample. Without a full review of civilian pay collections, the Comptroller could not assert to a complete listing of high dollar overpayments.

DFAS personnel stated that the cost to provide better information was sizeable and that significant resources were already devoted to identifying high dollar overpayments. DFAS officials estimated that it cost approximately \$25,000 in overtime to identify and report the high dollar overpayments in the sample.

**Military Pay Collections.** DFAS did not review military pay collections (debts) for high dollar overpayments. DFAS identified 84,509 newly established military pay debts totaling \$36.4 million in the First Quarter of FY 2010. However, DFAS personnel explained they did not review and report the information because the Defense Manpower and Data Center provided the debt information at a summary level to the DFAS Post Pay Review and Analysis Team. The Summary level data were inadequate because the Post Pay Review and Analysis Team required a list of in-service collection debts at the individual or Social Security number level to identify high dollar overpayments. The Defense Manpower and Data Center was unable to provide the required level of information in time to meet the reporting deadlines for the Overpayments Report. However, during the second quarter of FY 2010, DFAS was able to obtain this information.

DFAS performed a statistical sample review to identify high dollar overpayments in military pay but did not review collections. DFAS disclosed this limitation to the Comptroller during the reporting process. However, the Comptroller did not provide full disclosure in the Overpayments Report that DFAS did not completely review the military pay area for high dollar overpayments. Until the Comptroller fully discloses areas not reviewed, the Overpayments Report will not accurately present DoD's risk of improper payments.

**Travel and Retired and Annuitant Pay Collections.** The DFAS Post Pay Review and Analysis Team did not review the collections DoD obtained from travelers

who were paid for travel through the Defense Travel System or the Integrated Automated Travel System for Windows. Additionally, DFAS did not review retired and annuitant collections, totaling approximately \$13.3 million. DFAS needed to establish a methodology to review all collections related to travel and retired and annuitant payments. Without a proper review, DFAS cannot report accurately or perform a root cause analysis to identify the internal controls needed to prevent overpayments in the future.

### **DFAS Post Pay Review and Analysis Team Should Have Access to Personnel Records when Performing Reviews of Civilian and Military Pay**

The DFAS Post Pay Review and Analysis Team did not have the necessary access to personnel records, such as the Standard Form-50, “Notification of Personnel Action,” to conduct an adequate review of civilian or military pay for overpayments. Specifically, the DFAS Post Pay Review and Analysis Team was unable to verify employee’s grade, locality, age, or wage when reviewing payments processed by DFAS.

Additionally, the DFAS Post Pay Review and Analysis Team was unable to verify whether the human resource personnel entered employee timesheets appropriately into the Defense Civilian Payroll System used to issue payments to DoD civilians. Civilian Pay is a large payment program that disbursed approximately \$7.2 billion during the first quarter FY 2010.

### **DFAS Needed To Review Civilian Permanent Change of Station Payments**

DFAS excluded high dollar Permanent Change of Station (PCS) travel overpayments from its Overpayments Report. The DFAS Post Pay Review and Analysis Team did not review civilian PCS travel payments to identify high dollar overpayments. Travelers receive PCS payments when they relocate for official business.

PCS payments can be for large amounts that may meet the high dollar threshold for reporting. For example, we examined records that showed DFAS made a civilian PCS overpayment of \$13,608.96 to an individual in the first quarter of FY 2010. The overpayment occurred because the traveler submitted three travel authorizations using two different Social Security numbers for payment. The resulting vouchers included one correct and one incorrect Social Security number for the traveler. DFAS established two profiles in the Integrated Automated Travel System for Windows for the same person and paid the individual’s travel expenses twice. The traveler who was overpaid contacted DFAS about the duplicate payment and DFAS issued a demand letter to recover the overpayment. The traveler immediately refunded DFAS the overpayment. However,

*The lack of internal controls caused DFAS to overpay and then subsequently underpay the traveler.*

DFAS did not adequately maintain accounting records on the collection and seven months later began a salary offset of the traveler’s pay. The unnecessary salary offset created an additional improper payment related to civilian pay. The lack of internal controls caused DFAS to overpay and then subsequently underpay the traveler. DFAS needed to

implement internal controls to verify the Social Security number of the individual receiving payment to ensure that payments from the Integrated Automated Travel System for Windows are to DoD personnel or other entitled individuals and report these types of overpayments in its quarterly high dollar Overpayments Reports.

We noted that the same traveler with Social Security number issues also improperly received a Temporary Duty Travel payment that he was not entitled to while receiving PCS payments. This occurred because the Defense Travel System that processes Temporary Duty Travel payments and the Integrated Automated Travel System for Windows that processes PCS payments do not interface to identify overlapping travel. DFAS Columbus personnel processing PCS payments do not have access to the Defense Travel System to identify duplicate or overlapping payments. The system interface would allow DFAS Columbus personnel to identify overlapping payments prior to disbursement, preventing improper payments. DFAS Columbus issued a demand letter to the traveler for the improperly paid travel entitlement after the audit team identified the overpayment and informed DFAS management. DFAS needs to ensure that duplicate or overlapping travel payments are not processed in both the Defense Travel System and the Integrated Automated Travel System.

### **Military Health Benefits Payments Were Not Fully Reviewed or Reported**

The Comptroller did not disclose that TRICARE Management Activity (TMA) did not fully review Military Health Benefits outlays that it made. Additionally, the Comptroller did not report on overpayments that TMA identified in its partial review. TMA reviewed approximately \$3.0 billion of Military Health Benefits for overpayments in the first quarter. However, TMA did not review approximately \$1.7 billion in pharmacy claims. TMA plans to begin auditing pharmacy claims in FY 2011. TMA identified high dollar overpayments in the first quarter FY 2010 that the Comptroller did not include in the Overpayments Report. For example, in December 2009, TMA identified a \$71,174.84 overpayment due to a claim payment error.

The Overpayments Report should contain the results of audits and reviews of Military Health Benefits payments. However, Comptroller personnel determined that it was not cost effective to interrupt TMA's regular statistical sampling process to perform separate high dollar sampling because of the program's complex nature. The Comptroller needs to disclose the Military Health Benefits payment areas not reviewed and report the results of ongoing efforts to identify improper payments.

### **Inaccurate Reporting on High Dollar Overpayments Recovered**

The second element of EO 13520 requires DoD to describe actions taken to recover improper payments. The Comptroller's Overpayments Report showed that a large portion of the high dollar overpayments had already been recovered, but the Overpayments Report was not reliable. Specifically, the Overpayments Report showed that \$41.3 million of the \$49.8 million, or 82.9 percent, of the overpayments to entities

was recovered through May 31, 2010. For high dollar overpayments to individuals, the Overpayments Report showed that DFAS collected \$223,661 of the \$266,876, or 83.8 percent, as of April 30, 2010.

The Comptroller reported that DFAS implemented an improved Accounts Payable-Accounts Receivable Handoff process to compile information for the Overpayments Report. The Comptroller stated that the Accounts Payable-Accounts Receivable Handoff process provided procedures to ensure DFAS performed proper due diligence to include demand letter processing, follow-up actions, and collection and transfer of the debt to the Debt Management Process. In addition, the Comptroller stated that DFAS was piloting a project to refer selected commercial pay debts to the U.S. Treasury on the 91<sup>st</sup> day rather than in the usual 180 days. The project was designed to assess the feasibility, cost, and benefit to DoD of forwarding the debts earlier than required.

To test whether the process for reporting recoveries was reliable, we selected 5 of the 75 entity high dollar overpayments identified in the Overpayments Report as not fully recovered as of May 31, 2010. The five high dollar overpayments shown as not fully recovered totaled approximately \$3.5 million.

Our examination of the five high dollar overpayments showed that all of the five overpayments were either incorrectly listed in the Overpayments Report as not yet fully recovered or were invalid debts that did not need to be recovered. Specifically, for one of the five sampled overpayments, the Overpayments Report showed that the overpaid amount was not recovered; however documents provided by DFAS showed that the overpayment was recovered on November 30, 2009. For three of the five overpayments, DFAS determined that the reported overpayments were not valid debts. As a result, the debts should not have been reported or recovered. Finally, the remaining overpayment was improperly calculated. This caused a reporting discrepancy that overstated the amount available for recovery.

## **Planned Actions to Prevent High Dollar Overpayments**

The third element of EO 13520 requires DoD to report planned actions to prevent improper payments from occurring in the future. The Comptroller's report on DoD preventative action did not disclose some weaknesses. In the Overpayments Report, the Comptroller identified the Business Activity Monitoring tool (BAM) as the only method of taking corrective action on high dollar overpayments. BAM is a pre-payment validation tool that runs a discrete number of tests in order to identify potential improper payments before disbursement.

**Entitlement Systems Not Using BAM.** DFAS used BAM to identify duplicate payments, overpayments, and some underpayments. However, not all DoD payment systems used BAM. DFAS did not fully disclose planned corrective actions for entitlement systems that do not use BAM. For example, the Comptroller's Overpayments Report included a \$205,757 overpayment from the Automated Voucher Examining and Disbursing System (AVEDS). However, there was no discussion of corrective actions in

the Comptroller's Overpayments Report for AVEDS because it is one of 20 DoD entitlement systems not using BAM.

**False Positives.** The large number of transactions flagged by BAM for review negatively affected the efficiency of the review. According to data provided by the BAM

*...BAM produced results that had a false positive rate of more than 95 percent.*

Project Management Office, BAM produced results that had a false positive rate of more than 95 percent. A false positive is a transaction flagged as a potential improper payment but after review is determined to be proper. For example, in the first

quarter of FY 2010, BAM reviewed approximately 2.6 million transactions and flagged 138,254 of those transactions. DFAS researchers found that 6,856 were actual improper payments.

The high number of false positives made it difficult for the researchers to conduct appropriate research in a timely manner and without delaying payment. A BAM reviewer for the Computerized Accounts Payable System-Windows entitlement system reported that both she and another reviewer each reviewed approximately 150 transactions per day, averaging about 3 minutes for each review. Similarly, BAM supervisors for the One Pay system stated that they had to rotate reviewers to avoid burn out. The high rate of false positives and limited time for review increased the risk of improper payments going undetected prior to payment processing.

**No Standardized Methodology for Reviewing BAM Flagged Transactions.** In addition to generating false positives, the BAM review methodology had not been standardized across payment systems or even within the same office. Personnel charged with reviewing BAM-flagged transactions reported that they learned the processes through on-the-job training and that DFAS provided no formal training on the research process. The lack of a standardized methodology could lead to DFAS not detecting and preventing improper payments due to poor quality review. For example, we observed an occurrence where BAM flagged two payments as potential duplicate transactions valued at \$108,942 each. The researcher reviewed the two invoices that included a generic description of "lease of vehicles," and the researcher determined that the payments were valid. The audit team questioned the decision and, after further review by another DFAS researcher, the researchers concluded that one of the payments was a duplicate. The duplicate was corrected on site, but DFAS would have made the duplicate payment had the audit team not questioned the original determination during our visit. Until a standard methodology for review is established, the DoD risks making improper payments that were properly flagged by BAM.

## **Non-Compliance with Public Scrutiny Requirements and Lack of Consideration of Outside Sources That Identified High Dollar Overpayments**

In addition to inaccurate and incomplete reporting and insufficient action to correct overpayments, Comptroller oversight of compliance with EO 13520 was inadequate. We



based this assessment on missed reporting deadlines and auditor identified weaknesses in the Overpayments Report. Specifically, the Comptroller missed the reporting deadline and did not provide the Overpayments Report to the DoD OIG until July 12, 2010. In addition, DoD did not provide adequate information for public scrutiny and consider results from investigations or audit reports identifying high dollar overpayments.

**Limited Public Scrutiny.** EO 13520 required the head of each agency to submit the First Quarterly Report on High Dollar Overpayments to the OIG and to make it available to the public by May 19, 2010. President Obama's order states:

The purpose of this order is to reduce improper payments by intensifying efforts to eliminate payment error, waste, fraud, and abuse in the major programs administered by the Federal Government, while continuing to ensure that Federal programs serve and provide access to their intended beneficiaries. No single step will fully achieve these goals. Therefore, this order adopts a comprehensive set of policies, including transparency and public scrutiny of significant payment errors throughout the Federal Government; a focus on identifying and eliminating the highest improper payments; accountability for reducing improper payments among executive branch agencies and officials; and coordinated Federal, State, and local government action in identifying and eliminating improper payments.

DoD did not provide adequate information for public scrutiny. For the first quarter of FY 2010, the Web site published only six DoD high dollar entity overpayments, totaling approximately \$34 million, on the list of the top 10 government high dollar overpayments. The [www.paymentaccuracy.com](http://www.paymentaccuracy.com) Web site posting excluded 193 high dollar overpayments, totaling approximately \$16.1 million, from public scrutiny. As a result, the high dollar overpayments reported on [www.paymentaccuracy.gov](http://www.paymentaccuracy.gov) were not sufficient to meet the intent of the President's Executive Order of making the Overpayments Report available to the public. The Comptroller did not post the Overpayments Report to a DoD Web site, and Comptroller personnel stated that DoD is not required to post quarterly high dollar reports to a DoD Web site. The Comptroller determined that providing the Overpayments Report to [www.paymentaccuracy.gov](http://www.paymentaccuracy.gov) allowed for sufficient public scrutiny; however, the Web site did not post a complete listing of DoD high dollar overpayments. The Comptroller needs to use additional publication methods to make all high dollar overpayments reported in the Overpayments Report available to the public in order to increase transparency and comply with the President's intent.

**Outside Sources Not Considered.** Comptroller personnel did not review results from investigations or audit reports to identify high dollar overpayments. Specifically, Comptroller personnel did not consider results from investigations or audit reports issued by GAO, DoD OIG, Army Audit Agency, Naval Audit Service, Air Force Audit, or Defense Contract Audit Agency as potential sources to identify additional overpayments. Additionally, audit reports often contain findings on the methodology used to identify and correct improper payments. For example, GAO previously reported that despite

Improper Payment Information Act of 2002 (IPIA) requirements, DFAS did not correctly use statistical sampling to estimate improper payments for commercial pay.

EO 13520 implementing guidance suggests that Agencies track improper payments identified and recovered through a variety of means, including statistical samples under the IPIA. However, DFAS did not implement a sampling methodology that allowed for a statistical projection of both over- and under-payments. The implementation of statistical sampling would improve Comptroller personnel's oversight of high dollar overpayments made by DFAS.

### ***Actions Needed to Improve Reporting***

To improve the completeness and accuracy of the DoD quarterly high dollar overpayments reporting, the Comptroller should take action on the weaknesses identified in this report. The incomplete and inaccurate reporting described above existed because the Comptroller did not develop a sufficient methodology or perform adequate oversight to support a reasonably exhaustive study of its payment operations for reporting under EO 13520.

The methodology used to identify and report on high dollar overpayments needs to be more rigorous and consistent. The first step is to reconcile program outlays to the amounts reported in the SBR to ensure DoD includes the entire payment universe for review. After determining the most accurate universe of DoD payments, the Comptroller needs to provide a written plan and an efficient approach that DFAS and other DoD Components could use to sample payments for high dollar overpayments.

The methodology could include, but not be limited to, procedures for reviewing and including results of recalls, offsets, and rejects. Additionally, the methodology could include procedures to ensure that all identified high dollar overpayments are reported; and include procedures to review results from investigations, audit reports, and management reports for high dollar overpayments.

The Comptroller also needs to coordinate with TMA and other DoD Components to review the Military Health Benefits payments for high dollar overpayments on a quarterly basis. Additionally, ensuring that payment or collection areas not reviewed for high dollar overpayments are disclosed in the quarterly Overpayments Reports would provide additional transparency.

The Comptroller needs to perform effective oversight and direct DFAS to develop procedures and implement a sound methodology for reviewing all commercial pay entitlement systems for high dollar overpayments. The Director, DFAS, should use a statistical sample to identify improper commercial payments, review collections from individuals, and report any improper payments identified through statistical sampling. The Director, DFAS, should also coordinate with human resources offices to obtain personnel records to ensure civilian overpayments are detected and reported. The Director, DFAS, should also review PCS payments and develop and implement internal controls to ensure only DoD personnel or other entitled individuals with valid Social

Security numbers receive payments from the Integrated Automated Travel System for Windows.

## **Summary**

The purpose of EO 13520 is to reduce improper payments by intensifying efforts to eliminate payment error, waste, fraud, and abuse. EO 13520 adopts a comprehensive set of policies to ensure transparency and public scrutiny of significant payment errors.

The Comptroller did not comply with EO 13520 requirements for transparency. Although the Overpayments Report identified \$50 million in overpayments, it was not complete. The Overpayments Report did not provide an adequate representation of the number and amount of DoD's quarterly high dollar overpayments. The Comptroller and DFAS did not review and report on some large payments and significant programs to ensure report accuracy and completeness. Without accurate reporting, DoD will not be able to measure its progress in reducing high dollar overpayments.

In addition to the incomplete review and reporting, the Overpayments Report did not allow for public scrutiny. EO 13520 required the head of each agency to submit the First Quarterly Report on High Dollar Overpayments to the OIG, the Council of Inspectors' General on Integrity and Efficiency, and make it available to the public by May 19, 2010. As of December 7, 2010, the Comptroller had not posted the Overpayments Report to DoD's website for public scrutiny.

The Comptroller did not comply with the intent of the President's Order. The content of the Overpayments Report did not increase transparency to the fullest extent possible and was not available for public scrutiny.

## **Recommendations, Management Comments, and Our Response**

**1. We recommend that the Under Secretary of Defense (Comptroller)/Chief Financial Officer:**

**a. Develop a written plan and methodology to ensure adequate oversight of DoD high dollar overpayments reporting. The methodology should include:**

**(1) steps to reconcile all DoD outlays reviewed for improper payments against the Statement of Budgetary Resources gross outlays to determine whether all DoD payments and systems are reviewed for overpayments;**

### ***Under Secretary of Defense (Comptroller)/DoD Chief Financial Officer Comments***

The Deputy Chief Financial Officer (DCFO) for the Under Secretary of Defense (Comptroller)/DoD Chief Financial Officer agreed with the intent of the recommendation. The DCFO stated that the DoD will develop a written plan and methodology to ensure adequate oversight of DoD high dollar overpayments reporting.

Specifically, the DCFO stated that the Comptroller will collaborate with DFAS to develop a methodology to reconcile outlays as closely as possible to the quarterly Statement of Budgetary Resources to determine whether all DoD payments and systems are being reviewed for overpayments.

### ***Our Response***

The DCFO's comments were responsive and met the intent of the recommendation. No additional comments are required.

**(2) procedures for reviewing and including results of recalls, offsets, and rejects for overpayments;**

### ***Under Secretary of Defense (Comptroller)/DoD Chief Financial Officer Comments***

The DCFO agreed with the recommendation. The DCFO stated that the Comptroller will collaborate with DFAS to establish procedures for reviewing information on corrections, including recalls, offsets, and rejects for overpayments.

### ***Our Response***

The DCFO's comments were responsive and met the intent of the recommendation. No additional comments are required.

**(3) procedures to ensure that all overpayments are reviewed for high dollar overpayments and eligible for inclusion in the high dollar report; and**

### ***Under Secretary of Defense (Comptroller)/DoD Chief Financial Officer Comments***

The DCFO agreed with the intent of the recommendation. The DCFO stated that resource and time constraints do not allow for review of all individual overpayments for inclusion in the high dollar report. Therefore, the Comptroller approved the use of a statistical sampling for identifying individual high dollar overpayments to accomplish the intent of the Executive Order. The DCFO stated that the Comptroller collaborated with DFAS to establish procedures to ensure all entity overpayments are reviewed for inclusion in the high dollar report based on current data sources. The DCFO stated that the collaboration began subsequent to the Quarter 1, Fiscal Year 2010, reporting.

### ***Our Response***

Although the DCFO agreed with the intent of the recommendation, we disagree with the proposed methodology. The Executive Order implementing guidance states the high dollar overpayments report should list all high dollar overpayments identified by the agency during the quarter. The approval of a statistical sample instead of a full review of collections from individuals potentially understated the number of high dollar overpayments reported. For example, DFAS identified 22 high dollar overpayments for civilian pay by reviewing only 110 out of the 1,211 collections. The Comptroller's ability to accurately report high dollar overpayments, perform root cause analysis, and

identify the internal controls needed to prevent overpayments in the future would have increased had DFAS reviewed all collections for civilian, military, travel, and retired and annuitant pay. We request the DCFO reconsider our recommendation and provide additional comments for the final report.

**(4) procedures to review other sources for high dollar overpayments, including results from investigations, audit reports, and management reports.**

***Under Secretary of Defense (Comptroller)/DoD Chief Financial Officer Comments***

The DCFO agreed with the recommendation. The DCFO stated that procedures to review other sources, including audit reports, results from investigations, and management reports for high dollar improper payments will be implemented.

***Our Response***

The DCFO's comments were responsive and met the intent of the recommendation. No additional comments are required.

**b. Direct the TRICARE Management Activity and other DoD Components to review the Military Health Benefits for high dollar overpayments on a quarterly basis.**

***Under Secretary of Defense (Comptroller)/DoD Chief Financial Officer Comments***

The DCFO partially agreed with the recommendation. The DCFO stated that all DoD Components have been directed to review payments for high dollar overpayments on a quarterly basis. The DCFO stated that the Comptroller will work with TRICARE Management Activity to ensure high dollar value payments are appropriately reported.

***Our Response***

The DCFO's comments were responsive and met the intent of the recommendation. No additional comments are required.

**c. Disclose payment or collection areas not reviewed for high dollar overpayments, the potential impact of those areas on amounts reported, as well as plans to review all payments or collections for the Quarterly High Dollar Overpayments Report.**

***Under Secretary of Defense (Comptroller)/DoD Chief Financial Officer Comments***

The DCFO agreed with the recommendation stating that payment and collection areas not reviewed for high dollar overpayments will be disclosed in the quarterly reporting.



## ***Our Response***

The DCFO's comments are responsive and met the intent of the recommendation. No additional comments are required.

**d. Publish the Quarterly High Dollar Overpayments Report for public review on the DoD website within 15 days of providing the Overpayments Report to the Inspector General.**

## ***Under Secretary of Defense (Comptroller)/DoD Chief Financial Officer Comments***

The DCFO agreed with the intent of the recommendation. The DCFO stated that the Comptroller's interpretation of OMB implementing guidance is that OMB does not require the Department to post high dollar improper payments on its Web site. However, the DCFO stated that DoD will continue to provide its quarterly high dollar reporting to OMB and the Treasury Department for inclusion on the Payment Accuracy Web site to allow for public review.

## ***Our Response***

Although the DCFO agreed with the intent of the recommendation, we do not consider the comments responsive. We believe that providing the overpayments report to OMB and the Payment Accuracy Web site does not allow for adequate public transparency. Specifically, the [www.paymentaccuracy.com](http://www.paymentaccuracy.com) Web site posting excluded 193 high dollar overpayments of approximately \$16.1 million from public scrutiny. We request that the DCFO reconsider our recommendation and provide additional comments for the final report.

## **2. We recommend the Director, Defense Finance and Accounting Service:**

**a. Develop procedures and implement a methodology to include statistically sampling commercial pay entitlement systems for improper payments;**

## ***Defense Finance and Accounting Service Comments***

The Acting Director, Standards & Compliance for DFAS partially agreed with the recommendation. The Acting Director stated that DFAS plans to perform a risk assessment on entitlement systems that are not currently reporting actual improper payments under the current procedure. The Acting Director stated that once the risk assessment is completed, DFAS will evaluate the need for a sampling plan based on the outcome of the assessment and current prepayment controls. The Acting Director stated that DFAS requires its network to report actual improper payments monthly into the Improper Payment Online Database and into the Contract Debt System. DFAS estimated the date of completion of the proposed action to be September 30, 2012.

## ***Our Response***

Although the Acting Director for DFAS partially agreed with the recommendation, we do not consider the comments responsive. We agree that performing a risk assessment on

systems not currently reporting improper payments is necessary. However, the Acting Director implied that DFAS will not perform a statistical sample to identify improper payments for the current contract entitlement systems that are reporting improper payments. A statistical sample would allow for a systematic methodology that could both project and identify improper payments. Currently, DFAS identifies contract improper payments through debt letters issued and receipt of unsolicited refunds, which does not allow for a comprehensive review of all payments. Until a statistical sample is implemented for all entitlement systems, DoD will be unable to estimate the total amount of improper payments and fully report high dollar overpayments. Additionally, as mentioned in the report, the IPOD and CDS databases include numerous weaknesses in the process that caused underreporting of high dollar overpayments in the contract payment area. We request that the Acting Director provide a response to the final report specifying the action DFAS will take to implement a statistical sample of contract payments.

**b. Review all civilian, military, travel, and retired and annuitant pay collections or debts for high dollar overpayments;**

***Defense Finance and Accounting Service Comments***

The Acting Director partially agreed with the recommendation. DFAS elected to review random samples for cases of Military and Civilian Pay potential high dollar overpayments. The Acting Director stated that DFAS does not capture or review Travel pay collections. Instead, DFAS reviews Travel Pay overpayments identified during monthly random audits as well as any duplicate payments identified through database comparisons. The Acting Director stated that DFAS does not review all retired and annuitant pay collections. DFAS performs monthly random reviews of retired and annuitant pay accounts as well as population extracts of all payments and collections from deceased retirees and annuitants.

The Acting Director stated that DFAS uses the results from these reviews to identify high dollar improper payments. The Acting Director stated that all of the aforementioned processes are implemented consistent with applicable law and within available appropriation authority, thereby meeting the intent of Executive Order.

***Our Response***

Although the Acting Director for DFAS partially agreed with the recommendation, we do not consider the comments responsive. The Executive Order implementing guidance specifically states that high dollar overpayments should be identified by examining several sources of information available to the agencies. DFAS identified the majority of high dollar overpayments for civilian pay by reviewing collections. DFAS randomly selected 110 out of 1,211 civilian pay collections in the first quarter FY 2010 and identified 22 collections that met the requirements of a high dollar overpayment. DFAS's ability to accurately report high dollar overpayments, perform root cause analysis, and identify the internal controls needed to prevent overpayments in the future would have increased had DFAS reviewed all collections for civilian, military, travel, and retired and

annuitant pay. We request that the Acting Director reconsider the recommendation and provide comments for the final report.

**c. Coordinate with Military Services and Other Defense Organizations to obtain access to civilian and military personnel records and time reporting information for use when conducting post payment audits;**

***Defense Finance and Accounting Service Comments***

The Acting Director partially agreed with the recommendation. The Acting Director stated that all payment information necessary to establish an entitlement is available through access to the automated pay systems. However, in the event key information is missing, DFAS will coordinate with the affected agency to validate each entitlement using specific pay records.

***Our Response***

Although the Acting Director for DFAS partially agreed with the recommendation, we do not consider the comments responsive. Without access to civilian and military personnel records and time and attendance reporting, DFAS will be unable to ensure the information necessary for payment, that is included in the automated pay systems is accurate. Until the accuracy of the information reported in the automated pay systems is verified, DFAS cannot perform adequate reviews to identify improper payments and develop root cause analysis. We request that the Acting Director provide a response to the final report that specifies the action DFAS will take to obtain access to civilian and military personnel records and time.

**d. Review Permanent Change of Station payments for high dollar overpayments;**

***Defense Finance and Accounting Service Comments***

The Acting Director agreed with the recommendation. The Acting Director stated that the review of civilian PCS claims is included in the DFAS FY 2011 post pay review sampling plan. DFAS estimated the date of completion to be July 1, 2011, with first quarter FY 2011 audits to be completed by April 30, 2011.

***Our Response***

The Acting Director's comments were responsive and met the intent of the recommendation. No additional comments are required.

**e. Develop and implement internal controls to ensure only DoD personnel or other entitled individuals with valid Social Security numbers receive payments from the Integrated Automated Travel System for Windows;**

***Defense Finance and Accounting Service Comments***

The Acting Director agreed with the recommendation. The Acting Director stated that the Department has internal controls in place to ensure only individuals with valid Social

Security Numbers receive payments from the Integrated Automated Travel System for Windows (WinIATS). Specifically, WinIATS requires a unique nine digit identifier to process transactions. The Acting Director stated that WinIATS has pre-payment internal controls to flag claims when the same unique nine digit identifier is used by two travelers with different names within the same database. Additionally, the Acting Director stated that claims examiners are required to check the Operational Data Store (ODS) for information on travelers before inputting claims. The ODS printout will identify the traveler and claims examiners are to question instances when the ODS traveler and the name on the travel claim are different. The Acting Director stated that when the same unique nine digit identifier is used by different individuals, and they are paid in different databases, these payments are identified and investigated in the post payment environment. The Travel Functional Area of Standards and Compliance conducts post duplicate payment comparisons within the DFAS/Army WinIATS data bases to identify any potential overlapping, or duplicate payments. The Acting Director stated that once identified, the potential erroneous payments are investigated, and if found to be erroneous, DFAS takes corrective action.

### ***Our Response***

Although the Acting Director for DFAS agreed with the recommendation, we do not consider the comments responsive. We agree that DFAS has controls in place to prevent the same Social Security Number from being processed for two different individuals in WinIATS. However, DFAS did not establish internal controls to ensure that only DoD personnel or other entitled individuals with valid Social Security Numbers receive payments. DFAS did not implement an internal control to verify that the Social Security Number entered into WinIATS was the correct Social Security Number for the individual receiving payment. Additionally, ODS does not validate the Social Security Number but instead validates that there is no overlapping travel. We request that the Acting Director reconsider the recommendation and provide comments for the final report.

**f. Develop and implement internal controls in both the Defense Travel System and Integrated Automated Travel System for Windows to verify that payment entitlements for overlapping periods are valid prior to disbursement.**

### ***Defense Finance and Accounting Service Comments***

The Acting Director agreed with the recommendation. The Acting Director stated that the Department already has internal controls to verify that payment entitlements for overlapping periods in the Defense Travel System (DTS) and WinIATS are valid prior to disbursement. Specifically, WinIATS and DTS contain internal edits to flag overlapping travel periods within each system's individual database. The Acting Director stated that in addition to the system edits, DFAS has a manual internal control to validate a WinIATS payment when it is processed. Travel examiners are required to access and review the ODS records for each traveler before they process a claim in WinIATS. The Acting Director stated that the ODS printout will show any previous payments made to that individual from any DFAS WinIATS database. The examiner can then determine if there are any overlapping payments from those data. DFAS performs a post payment comparison between WinIATS payments and DTS payments. The comparison looks for

overlapping and duplicate payments. The Acting Director stated that once any potential erroneous payment is identified, it is investigated. If found to be in error, DFAS will take the appropriate collection action.

### ***Our Response***

Although the Acting Director agreed with the recommendation, we do not consider the comments responsive. The stated action will not improve the internal controls currently used by DFAS to verify overlapping payments. The Acting Director indicated that DFAS performs a post payment comparison between WinIATS payments and DTS payments to identify travel payments processed for the same time period. Under the existing process, DFAS identifies errors during post payment reviews and subsequently takes corrective action to recover the overpayment. DFAS is currently 22 months behind in performing its pay and chase methodology. The success rate for recovering an overpayment diminishes over time, meaning that the longer it takes to identify an overpayment, the greater the difficulty in collecting it.

During follow-up to the draft report, DFAS personnel indicated that WinIATS and DTS did not interface and that no pre-payment validation was performed between the two systems. DFAS personnel indicated that a Microsoft Access program is currently in development that will perform a pre-payment validation. However, DFAS does not yet have a target date for implementation. An upfront verification to identify overlapping travel between DTS and WinIATS would reduce the need to perform overlapping travel reviews and subsequent collection efforts. We request that the Acting Director reconsider his comments to the recommendation and provide comments for the final report.



## **Appendix A. Scope and Methodology**

We conducted this performance audit from July 2010 through December 2010 in accordance with generally accepted government auditing standards. Those standards require that we plan and perform the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for our findings and conclusions based on our audit objectives. We believe that the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objectives.

The audit team did not review DoD reporting for IPIA compliance because Public Law 111-204, “Improper Payments Elimination and Recovery Act of 2010” (P.L. 111-204) was signed into law on July 22, 2010. This new public law replaced the IPIA in the United States Code and added requirements for Federal Departments. However, Office of Management and Budget reporting guidance for P.L. 111-204 is currently not available. Once guidance is issued, we will review compliance with Public Law 111-204 during the audit of Consolidated DoD Financial Statements.

In order to audit DoD’s “Reporting of High Dollar Improper Payments in accordance with OMB Circular A-123, Appendix C, Part III,” signed by the Under Secretary of Defense (Comptroller)/Chief Financial Officer on July 1, 2010, we obtained and reviewed the submitted report and requested information on the methodology used to complete the Overpayments Report. DoD Comptroller personnel and DFAS provided information showing which programs and activities they reviewed. We discussed the DoD reporting process with Comptroller and DFAS personnel and obtained records on the review and reporting process. We reviewed the supporting documentation used to prepare the Overpayments Report and conducted interviews with key personnel. In addition, we gathered information about DoD payments from published Financial Statements from the first quarter of FY 2010.

### **Use of Computer-Processed Data**

To perform this audit, we obtained data from the Improper Payments Online Database (IPOD) and the Contractor Debt System (CDS). We reviewed the data from those systems because they were the source of information on overpayments and debts that DFAS used to populate their universe. The data in these systems were not complete and had coding weaknesses discussed in detail below. As a result of the incomplete data and coding weaknesses, the audit identified areas that were not reviewed and high dollar overpayments identified were not included in the DoD Report. The findings in this report focus on the computer processed data weaknesses found.

We identified specific weaknesses with the CDS affecting the system’s reliability. Specifically, the CDS allowed users to categorize the reason for a debt as “unknown.” During the reporting process, DFAS personnel conducted a review to determine if the “unknown” debts were improper payments. DFAS deleted debts that were determined not to have met improper payment criteria. Once DFAS personnel completed the review, they changed the system to ensure that debts coded as unknown were no longer entered

into CDS. Another weakness was that not all entitlement systems were reporting into CDS. DFAS was working to address the outstanding weakness.

Our tests of the data obtained from IPOD showed that the data were incomplete, inaccurate, and unreliable. DFAS used IPOD to produce the Improper Payments survey information and to track and support all improper payments reported in the DoD. DFAS self-identified a weakness in IPOD and confirmed that not all systems submit improper payments to that database. As a result, not all systems were included in the review and compilation, which impacted the reliability of the DoD's Report.

## **Prior Coverage**

During the last 5 years, the Government Accountability Office (GAO) and the Department of Defense Inspector General (DoD IG) issued eight reports discussing Improper Payments; however, none of the reports directly respond to Executive Order 13520 "Reducing Improper Payments." Unrestricted GAO reports can be accessed over the Internet at <http://www.gao.gov>. Unrestricted DoD IG reports can be accessed at <http://www.dodig.mil/audit/reports>.

### **GAO**

GAO Report No. GAO-09-442, "Significant Improvements Needed in DoD's Efforts to Address Improper Payment and Recovery Auditing Requirements," July 29, 2009

GAO Report No. GAO-08-16, "DoD Travel Improper Payments: Fiscal Year 2006 Reporting Was Incomplete and Planned Improvement Efforts Face Challenges," December 14, 2007

### **DoD IG**

DoD OIG Report No. D-2010-037 "Internal Controls Over United States Marine Corps Commercial and Miscellaneous Payments Processed Through the Deployable Disbursing System," January 25, 2010

DoD OIG Report No. D-2009-072, "Monitoring PowerTrack Payments for DoD Freight Transportation," April 9, 2009

DoD OIG Report No. D-2008-132, "Ocean Freight Transportation Payments Using PowerTrack (U)," September 26, 2008. This FOUO report is not available on the website but may be available via a Freedom of Information Act request

DoD OIG Report No. D-2008-096, "Identification and Reporting of Improper Payments by the Defense Logistics Agency," May 20, 2008

DoD OIG Report No. D-2008-043, "Identification and Reporting of Improper Payments – Refunds from DoD Contractors," January 31, 2008

DoD OIG Report No. D-2006-094, "Improper Payments for Defense Fuels," June 29, 2006

## Appendix B. First Quarter FY 2010 High Dollar Overpayments Report



COMPTROLLER

UNDER SECRETARY OF DEFENSE  
1100 DEFENSE PENTAGON  
WASHINGTON, DC 20301-1100

JUL 1 2010

### MEMORANDUM FOR INSPECTOR GENERAL OF THE DEPARTMENT OF DEFENSE

SUBJECT: Reporting of High Dollar Improper Payments in accordance with OMB Circular A-123, Appendix C, Part III

In accordance with subject guidance and pursuant to Executive Order (E.O.) 13520, "Reducing Improper Payments and Eliminating Waste in Federal Programs," my office is providing you with two reports (attached) that detail both the individual and entity high dollar improper payments identified for the first quarter of fiscal year 2010. Also, in compliance with the guidance and the E.O., this information will be reported publicly and to the Office of Management and Budget, Office of Federal Financial Management.

High dollar improper payments have been defined as \$5,000 and 50 percent more than the correct payment amount for individuals, and \$25,000 and 50 percent more than the correct payment amount for entities. The payments reported in the attachments were disbursed by the Defense Finance and Accounting Service (DFAS). No high dollar improper payments were identified by any other disbursing site for the first quarter of fiscal year 2010.

While we need to reduce and, where possible, eliminate improper payments, they are a very small fraction of total Department payments. For example, vendor and contractor high dollar improper payments (as defined above) represented just 5/100 percent (.05%) of total commercial payments disbursed by DFAS during the first quarter of fiscal year 2010, a large portion of which has already been recovered.

My contact for this subject matter is [REDACTED]

Robert F. Hale

Attachments:  
As stated



## **Q1 FY10 High Dollar Overpayments Payments to Individuals**

### **Civilian Pay**

The first quarter random review sample for civilian pay included 1,905 accounts for \$3,093,039 total sampled dollars. The review identified 3 accounts with \$18 total overpaid dollars. No overpayments met the high dollar threshold.

The first quarter in-service collections included 21,548 newly established debts for \$14,902,454 total in-service collections overpayment dollars. To determine the threshold, the debts were sorted and reduced to only those with \$2,500 or more in-service collections. Of the 1,211 debts identified, a simple random sample of 110 records was selected and reviewed to determine high dollar payments of \$5,000 or more with overpayment exceeding 50 percent of the intended amount. The review found 22 debts meeting the high dollar threshold for \$202,608 total overpaid dollars. (In-service collections are often the result of initial inaccurate personnel actions generated by the human resource offices.)

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### **Civilian Pay – Prevention and Corrective Action**

Corrective personnel actions are generated by human resources and transmitted to the civilian payroll system for re-computation of pay and allowances, and create a debt action to offset the initial overpayment. These initial improper payments are discovered through various sources, such as agency reviews, bi-weekly exception reports, employee or supervisor notification, and the like.

### **Retired and Annuitant Pay**

The first quarter random review of confirmed deceased retirees included 414 cases for \$725,401 total dollars, of which nine transactions valued at \$64,268 met the high dollar threshold. Eight of the nine overpayments identified have already been collected as of this reporting.

### **Military Retired Pay – Prevention and Corrective Action**

The Department's control process to prevent, identify, and reduce overpayments to deceased retirees include a series of periodic eligibility notifications, early detection data mining efforts, and partnerships with other Federal and state entities. The Department takes a proactive approach, routinely comparing retired and annuity payroll master file databases to Social Security Administration "deceased" records and periodically comparing records with the Office of Personnel Management deceased files. The file comparisons are also conducted with the Department of Veterans Affairs' cemetery database and with individual states with sizable retiree and annuitant populations (e.g., Texas, California, and Florida). Retirees identified as deceased in these comparisons must validate their continued eligibility, or the accounts are suspended.

**Q1 FY 2010 INDIVIDUAL HIGH DOLLAR IMPROPER PAYMENTS**

<b>CIVILIAN PAY</b>			
<b>CITY/STATE/FOREIGN COUNTRY</b>	<b>OVERPMT AMOUNT</b>	<b>RECOVERED THRU 4/30/10</b>	<b>DESCRIPTION</b>
HUNTSVILLE AL	\$7,094.98	\$2,582.57	DOD INPUT ERROR
HUMBLE TX	\$7,762.61	\$7,392.55	DOD INPUT ERROR
BAGHDAD IRAQ	\$20,711.04	\$20,711.04	DOD INPUT ERROR
AZLE TX	\$5,276.80	\$5,276.80	DOD INPUT ERROR
SEATTLE WA	\$31,989.00	\$31,989.00	DOD INPUT ERROR
SEOUL SOUTH KOREA	\$7,116.00	\$1,614.48	DOD INPUT ERROR
HOMEWOOD AL	\$7,260.44	\$2,751.70	DOD INPUT ERROR
FREDERICKSBURG VA	\$3,598.00	\$3,598.00	DOD INPUT ERROR
TAYLOR PA	\$4,010.13	\$3,999.82	DOD INPUT ERROR
TEXARKANA TX	\$15,853.20	\$4,559.17	DOD INPUT ERROR
TINTON FALL NJ	\$10,689.30	\$10,689.30	DOD INPUT ERROR
RIVERDALE UT	\$5,880.45	\$5,880.45	DOD INPUT ERROR
ISLAMABAD PAKISTAN	\$15,581.91	\$15,581.91	DOD INPUT ERROR
COLORADO SPRINGS CO	\$3,620.07	\$3,620.07	DOD INPUT ERROR
NEWTON KS	\$18,725.70	\$18,725.70	DOD INPUT ERROR
WASHINGTON DC	\$2,611.55	\$2,429.34	DOD INPUT ERROR
CASTRO VALLEY CA	\$6,494.40	\$6,494.40	DOD INPUT ERROR
MANNHEIM GERMANY	\$2,995.15	\$2,995.15	DOD INPUT ERROR
OSAN AFB SOUTH KOREA	\$5,770.24	\$5,770.24	DOD INPUT ERROR
LAKENHEATH UK	\$8,114.04	\$6,018.12	DOD INPUT ERROR
ROTA SPAIN	\$6,120.04	\$1,571.39	DOD INPUT ERROR
OKINAWA JAPAN	\$5,333.10	\$5,333.10	DOD INPUT ERROR
<b>Total</b>	<b>\$202,608.15</b>	<b>22</b>	<b>COUNT</b>
		\$169,584.30 Recovered 84% as of 4/30/10	

\*\*Civilian Pay error rate for Q1 FY 2010 was 0.22%

<b>MILITARY RETIREMENT PAY</b>			
<b>CITY/STATE/FOREIGN COUNTRY</b>	<b>OVERPMT AMOUNT</b>	<b>RECOVERED THRU 4/30/10</b>	<b>DESCRIPTION</b>
AMES IA	\$5,337.24	\$5,337.24	LATE RECEIPT OF DEATH CERTIFICATE
KAILUA KONA HI	\$10,191.45	\$0.00	LATE NOTIFICATION FROM FAMILY; COLLECTION INITIATED
KEY COLONY BEACH FL	\$8,378.36	\$8,378.36	LATE RECEIPT OF DEATH CERTIFICATE
GOLDSBORO NC	\$7,606.85	\$7,606.85	LATE RECEIPT OF DEATH CERTIFICATE
GREEN VALLEY AZ	\$5,980.06	\$5,980.06	LATE RECEIPT OF DEATH CERTIFICATE
SAN ANGELO TX	\$5,698.20	\$5,698.20	LATE RECEIPT OF DEATH CERTIFICATE
BYRON GA	\$7,855.14	\$7,855.14	LATE RECEIPT OF DEATH CERTIFICATE
WILLIAMSBURG VA	\$7,155.02	\$7,155.02	LATE RECEIPT OF DEATH CERTIFICATE
SUN LAKES AZ	\$6,065.50	\$6,065.50	LATE RECEIPT OF DEATH CERTIFICATE
<b>Total</b>	<b>\$64,267.82</b>	<b>9</b>	<b>COUNT</b>
		\$54,076.37 Recovered 84% as 4/30/10	

\*\*Military Retirement Pay error rate for Q1 FY 2010 was .13%

## **Q1 FY10 High Dollar Overpayments Entities (Contractor Pay)**

### **Recovery Actions and Strategies**

DFAS has implemented an improved Accounts Payable-Accounts Receivable handoff standard process. The process provides the procedures that ensure the proper due diligence is performed to include but not limited to demand letter processing, follow-up actions, collection and transfer of the debt to the Debt Management Office.

DFAS is piloting a project to refer select commercial pay debts to U.S. Treasury at 91 days. The purpose of the pilot is to assess the feasibility, costs and benefit to DoD of forwarding commercial pay (contract and vendor pay) debts to Treasury at 91 days for collection instead of the usual 180 days.

### **Corrective Actions and Strategies**

DFAS has implemented the Business Activity Monitoring (BAM) tool which compares the current invoices received in our major entitlement systems to historical paid files. The purpose of BAM is to identify, monitor, and prevent or reduce transaction errors and duplicate payments and over/underpayments. BAM identifies potential improper payments before they are disbursed providing DFAS the capability to prevent an improper payment. DFAS continues to refine the BAM logic to further enhance the identification of potential improper payments prior to disbursement.

**Q1 FY 2010 ENTITY (CONTRACTOR) HIGH DOLLAR IMPROPER PAYMENTS**

CITY/FOREIGN COUNTRY	STATE	OVERPAYMENT AMOUNT	RECOVERED THRU 5/31/2010	REASON FOR ERROR
EASLEY	SC	\$1,118,604.00	\$0.00	CONTRACTOR DUPLICATE BILLING
MC LEAN	VA	\$322,761.31	\$0.00	CONTRACTOR DUPLICATE BILLING
MIAMI	FL	\$205,756.72	\$0.00	CONTRACTOR DUPLICATE BILLING
SAN ANTONIO	TX	\$130,616.81	\$130,616.81	CONTRACTOR DUPLICATE BILLING
HOUSTON	TX	\$126,147.97	\$0.00	CONTRACTOR DUPLICATE BILLING
AYER	MA	\$84,322.78	\$84,322.78	CONTRACTOR DUPLICATE BILLING
NEWARK	NJ	\$80,807.72	\$80,807.72	CONTRACTOR DUPLICATE BILLING
MCLEAN	VA	\$74,591.67	\$0.00	CONTRACTOR DUPLICATE BILLING
STANFORD	CA	\$68,360.66	\$68,360.66	CONTRACTOR DUPLICATE BILLING
RICHMOND	VA	\$61,989.00	\$0.00	CONTRACTOR DUPLICATE BILLING
TEMPE	AZ	\$57,504.68	\$33,241.76	CONTRACTOR DUPLICATE BILLING
TRENTON	NJ	\$54,611.58	\$54,611.58	CONTRACTOR DUPLICATE BILLING
SPRINGFIELD	NJ	\$46,255.00	\$46,255.00	CONTRACTOR DUPLICATE BILLING
DE PERE	WI	\$36,088.62	\$36,088.62	CONTRACTOR DUPLICATE BILLING
SPRINGFIELD	VA	\$40,130.42	\$40,130.42	CONTRACTOR DUPLICATE BILLING
YUMA	AZ	\$36,508.00	\$36,508.00	CONTRACTOR DUPLICATE BILLING
CLEARWATER	FL	\$33,735.31	\$33,735.31	CONTRACTOR DUPLICATE BILLING
BEDFORD	MA	\$33,400.54	\$0.00	CONTRACTOR DUPLICATE BILLING
WASHINGTON	DC	\$25,654.36	\$2,854.47	CONTRACTOR DUPLICATE BILLING
WASHINGTON	DC	\$25,318.03	\$0.00	CONTRACTOR DUPLICATE BILLING
DALLAS	TX	\$24,143.66	\$24,143.66	CONTRACTOR DUPLICATE BILLING
ARLINGTON	VA	\$21,111.01	\$21,111.01	CONTRACTOR DUPLICATE BILLING
FAIRFAX	VA	\$20,363.73	\$20,363.73	CONTRACTOR DUPLICATE BILLING
SAN MATEO	CA	\$20,000.00	\$20,000.00	CONTRACTOR DUPLICATE BILLING
LUMBER BRIDGE	NC	\$16,820.00	\$16,820.00	CONTRACTOR DUPLICATE BILLING
VIRGINIA BEACH	VA	\$15,430.20	\$0.00	CONTRACTOR DUPLICATE BILLING
BEDFORD	MA	\$15,164.15	\$15,164.15	CONTRACTOR DUPLICATE BILLING
FARMINGTON	UT	\$14,292.70	\$14,292.70	CONTRACTOR DUPLICATE BILLING
SAINT LOUIS	MO	\$14,096.23	\$6,934.35	CONTRACTOR DUPLICATE BILLING
CARBONDALE	PA	\$12,615.00	\$12,615.00	CONTRACTOR DUPLICATE BILLING
RICHMOND	VA	\$45,257.66	\$45,257.66	CONTRACTOR DUPLICATE BILLING
LOS ANGELES	CA	\$2,565,089.56	\$1,239,623.88	OTHER CONTRACTOR BILLING ERROR
FAIRLAWN	OH	\$380,201.92	\$360,789.92	OTHER CONTRACTOR BILLING ERROR

CITY/FOREIGN COUNTRY	STATE	OVERPAYMENT AMOUNT	RECOVERED THRU 5/31/2010	REASON FOR ERROR
ST LOUIS	MO	\$344,916.00	\$338,316.00	OTHER CONTRACTOR BILLING ERROR
SOLINGEN, GERMANY	ZZ	\$94,753.95	\$0.00	OTHER CONTRACTOR BILLING ERROR
CHEASPEAKE	VA	\$75,145.63	\$75,145.63	OTHER CONTRACTOR BILLING ERROR
MCLEAN	VA	\$70,631.57	\$0.00	OTHER CONTRACTOR BILLING ERROR
BARDSTOWN	KY	\$60,823.20	\$60,823.20	OTHER CONTRACTOR BILLING ERROR
CDEAR RAPIDS	IA	\$46,187.73	\$46,187.73	OTHER CONTRACTOR BILLING ERROR
ROCKFORD	IL	\$46,029.00	\$3,723.00	OTHER CONTRACTOR BILLING ERROR
HOLLYWOOD	FL	\$35,548.10	\$15,140.72	OTHER CONTRACTOR BILLING ERROR
DAYTON	OH	\$28,697.04	\$28,697.04	OTHER CONTRACTOR BILLING ERROR
MINNEAPOLIS	MN	\$28,531.39	\$28,531.39	OTHER CONTRACTOR BILLING ERROR
MOSSVILLE	IL	\$26,319.04	\$0.00	OTHER CONTRACTOR BILLING ERROR
FAIRFAX	VA	\$18,032.26	\$0.00	OTHER CONTRACTOR BILLING ERROR
COLUMBIA	MD	\$65,269.32	\$65,269.32	OTHER CONTRACTOR BILLING ERROR
RADFORD	VA	\$5,765,550.90	\$5,765,550.90	DOD INPUT ERROR
COLLEGE STATION	TX	\$838,573.35	\$835,579.75	DOD INPUT ERROR
JALALABAD, AFGHANISTAN	ZZ	\$796,903.60	\$0.00	DOD INPUT ERROR
FOXBORO	MA	\$650,368.00	\$650,368.00	DOD INPUT ERROR
ARLINGTON	VA	\$480,694.12	\$480,694.12	DOD INPUT ERROR
MINNEAPOLIS	MN	\$386,179.50	\$386,179.50	DOD INPUT ERROR
ORANGE	CA	\$365,885.19	\$365,885.19	DOD INPUT ERROR
ATLANTA	GA	\$351,868.06	\$0.00	DOD INPUT ERROR
LINCOLN	NE	\$333,857.65	\$333,857.65	DOD INPUT ERROR
IRAQ	ZZ	\$323,400.00	\$323,400.00	DOD INPUT ERROR
MIDDLETOWN	IA	\$322,417.92	\$322,417.92	DOD INPUT ERROR
MAPLETON	UT	\$296,476.60	\$296,476.60	DOD INPUT ERROR
WACO	TX	\$260,055.50	\$209,716.80	DOD INPUT ERROR
AFGHANISTAN	ZZ	\$250,950.59	\$0.00	DOD INPUT ERROR
CHESAPEAKE	VA	\$183,045.65	\$378.81	DOD INPUT ERROR
REDWOOD CITY	CA	\$162,741.25	\$162,741.25	DOD INPUT ERROR
ROCHESTER HILLS	MI	\$162,324.35	\$162,324.35	DOD INPUT ERROR
CHANTILLY	VA	\$146,504.16	\$73,252.08	DOD INPUT ERROR
KABUL, AFGHANISTAN	ZZ	\$145,000.00	\$145,000.00	DOD INPUT ERROR
WEST PALM BEACH	FL	\$141,518.76	\$0.00	DOD INPUT ERROR
KABUL, AFGHANISTAN	ZZ	\$128,500.00	\$128,500.00	DOD INPUT ERROR
HERMISTON	OR	\$120,355.68	\$120,355.68	DOD INPUT ERROR



CITY/FOREIGN COUNTRY	STATE	OVERPAYMENT AMOUNT	RECOVERED THRU 5/31/2010	REASON FOR ERROR
MADISON	WI	\$116,005.10	\$113,883.98	DOD INPUT ERROR
WINTER GARDEN	FL	\$112,532.00	\$0.00	DOD INPUT ERROR
GREENBELT	MD	\$108,762.54	\$0.00	DOD INPUT ERROR
HERAT, AFGHANISTAN	ZZ	\$107,250.00	\$0.00	DOD INPUT ERROR
DUBAI, UNITED ARAB EMIRATES	ZZ	\$103,490.00	\$103,490.00	DOD INPUT ERROR
SHARANA, AFGHANINSTAN	ZZ	\$101,400.00	\$0.00	DOD INPUT ERROR
VASS	NC	\$97,956.86	\$97,956.86	DOD INPUT ERROR
SAN ANTONIO	TX	\$91,318.00	\$91,318.00	DOD INPUT ERROR
ALEXANDRIA	VA	\$89,378.80	\$0.00	DOD INPUT ERROR
LA JOLLA	CA	\$88,466.37	\$88,466.37	DOD INPUT ERROR
LANHAM	MD	\$81,987.47	\$902.04	DOD INPUT ERROR
COLUMBIA	MD	\$80,525.54	\$14,152.24	DOD INPUT ERROR
SAN DIEGO	CA	\$79,631.45	\$54,505.45	DOD INPUT ERROR
ANKENY	IA	\$64,682.86	\$64,682.86	DOD INPUT ERROR
COLUMBIA	SC	\$60,484.00	\$0.00	DOD INPUT ERROR
AFGHANISTAN	ZZ	\$58,968.00	\$0.00	DOD INPUT ERROR
MONTEREY	CA	\$57,561.82	\$57,561.82	DOD INPUT ERROR
COLUMBUS	OH	\$56,940.03	\$56,940.03	DOD INPUT ERROR
PHILADELPHIA	PA	\$56,925.00	\$0.00	DOD INPUT ERROR
SAN DIEGO	CA	\$54,050.44	\$0.00	DOD INPUT ERROR
KABUL, AFGHANISTAN	ZZ	\$50,400.00	\$50,400.00	DOD INPUT ERROR
SEATTLE	WA	\$50,000.00	\$50,000.00	DOD INPUT ERROR
WEST LAFAYETTE	IN	\$50,000.00	\$50,000.00	DOD INPUT ERROR
WEST HARTFORD	CT	\$50,000.00	\$50,000.00	DOD INPUT ERROR
TORRENCE	CA	\$48,750.88	\$0.00	DOD INPUT ERROR
RENO	NV	\$46,037.84	\$46,037.84	DOD INPUT ERROR
KABUL, AFGHANISTAN	ZZ	\$45,950.00	\$45,950.00	DOD INPUT ERROR
IRVINE	CA	\$45,150.48	\$0.00	DOD INPUT ERROR
TEMPE	AZ	\$40,716.00	\$0.00	DOD INPUT ERROR
KARBALA, IRAQ	ZZ	\$40,600.00	\$0.00	DOD INPUT ERROR
IRAQ	ZZ	\$38,984.00	\$0.00	DOD INPUT ERROR
KABUL, AFGHANISTAN	ZZ	\$38,750.00	\$0.00	DOD INPUT ERROR
CORPUS CHRISTI	TX	\$37,996.26	\$0.00	DOD INPUT ERROR
IRBIL IRAQ	ZZ	\$36,960.00	\$0.00	DOD INPUT ERROR
HUNTSVILLE	AL	\$36,440.80	\$31,810.00	DOD INPUT ERROR

CITY/FOREIGN COUNTRY	STATE	OVERPAYMENT AMOUNT	RECOVERED THRU 5/31/2010	REASON FOR ERROR
DUBAI, UNITED ARAB EMIRATES	ZZ	\$35,206.00	\$35,206.00	DOD INPUT ERROR
ATLANTA	GA	\$34,023.87	\$34,023.87	DOD INPUT ERROR
KANSAS CITY	MO	\$33,750.00	\$0.00	DOD INPUT ERROR
OREM	UT	\$33,370.00	\$33,370.00	DOD INPUT ERROR
STRONGSVILLE	OH	\$33,120.03	\$33,120.03	DOD INPUT ERROR
WASHINGTON	DC	\$32,995.71	\$32,995.71	DOD INPUT ERROR
NOBLESVILLE	IN	\$32,513.65	\$0.00	DOD INPUT ERROR
ANCHORAGE	AL	\$31,816.59	\$0.00	DOD INPUT ERROR
BAGHDAD, IRAQ	ZZ	\$31,000.00	\$31,000.00	DOD INPUT ERROR
MONMOUTH	IL	\$29,837.47	\$29,837.47	DOD INPUT ERROR
CLINTON TOWNSHIP	MI	\$28,500.00	\$28,500.00	DOD INPUT ERROR
COLUMBUS	OH	\$27,435.53	\$27,435.53	DOD INPUT ERROR
SAN DIEGO	CA	\$27,000.00	\$0.00	DOD INPUT ERROR
SAN ANTONIO	TX	\$26,857.94	\$26,857.94	DOD INPUT ERROR
SAN ANTONIO	TX	\$26,163.80	\$0.00	DOD INPUT ERROR
NORWALK	CT	\$25,905.44	\$0.00	DOD INPUT ERROR
JALALABAD, AFGHANISTAN	ZZ	\$24,600.00	\$0.00	DOD INPUT ERROR
DUBAI, UNITED ARAB EMIRATES	ZZ	\$24,008.10	\$24,008.10	DOD INPUT ERROR
IRAQ	ZZ	\$23,625.00	\$0.00	DOD INPUT ERROR
COLLEGE PARK	MD	\$23,280.00	\$0.00	DOD INPUT ERROR
SOMERVILLE	MA	\$23,000.00	\$23,000.00	DOD INPUT ERROR
LIVERPOOL, ENGLAND	ZZ	\$22,495.00	\$22,495.00	DOD INPUT ERROR
ATLANTA	GA	\$21,792.30	\$5,421.38	DOD INPUT ERROR
CALIFORNIA	MD	\$21,622.77	\$0.00	DOD INPUT ERROR
LOS ANGELES	CA	\$21,092.08	\$21,092.08	DOD INPUT ERROR
WASHINGTON	DC	\$20,727.00	\$20,727.00	DOD INPUT ERROR
JACKSONVILLE	FL	\$20,138.76	\$20,138.76	DOD INPUT ERROR
HUNTSVILLE	AL	\$20,025.83	\$20,025.83	DOD INPUT ERROR
LIVERPOOL, ENGLAND	ZZ	\$19,337.72	\$19,337.72	DOD INPUT ERROR
ENCINITAS	CA	\$19,227.52	\$19,227.52	DOD INPUT ERROR
VIRGINIA BEACH	VA	\$19,135.48	\$19,135.48	DOD INPUT ERROR
SAINT PETERSBURG	FL	\$17,360.35	\$3,607.71	DOD INPUT ERROR
CHEVY CHASE	MD	\$16,000.00	\$16,000.00	DOD INPUT ERROR
BELLEVUE	WA	\$15,531.95	\$7,786.56	DOD INPUT ERROR
SYRACUSE	NY	\$15,485.00	\$15,485.00	DOD INPUT ERROR

CITY/FOREIGN COUNTRY	STATE	OVERPAYMENT AMOUNT	RECOVERED THRU 5/31/2010	REASON FOR ERROR
KATY	TX	\$15,375.00	\$15,375.00	DOD INPUT ERROR
GROTON	CT	\$15,370.00	\$15,370.00	DOD INPUT ERROR
MEMPHIS	TN	\$15,271.40	\$14,490.54	DOD INPUT ERROR
NORTH SYRACUSE	NY	\$14,983.96	\$14,983.96	DOD INPUT ERROR
ANAHEIM	CA	\$14,955.85	\$0.00	DOD INPUT ERROR
TAEGU, SOUTH KOREA	ZZ	\$14,952.51	\$0.00	DOD INPUT ERROR
MANNHEIM, GERMANY	ZZ	\$14,841.96	\$0.00	DOD INPUT ERROR
KABUL, AFGHANISTAN	ZZ	\$14,840.00	\$14,840.00	DOD INPUT ERROR
AURORA	CO	\$14,345.37	\$14,345.37	DOD INPUT ERROR
SAINT AUGUSTINE	FL	\$14,264.87	\$14,264.87	DOD INPUT ERROR
NEW HAVEN	IN	\$14,120.00	\$4,880.00	DOD INPUT ERROR
VIENNA	VA	\$14,028.84	\$14,028.84	DOD INPUT ERROR
HONOLULU	HI	\$13,860.00	\$13,860.00	DOD INPUT ERROR
FREDERICKSBURG	VA	\$13,795.10	\$0.00	DOD INPUT ERROR
KENOSHA	WI	\$13,128.00	\$0.00	DOD INPUT ERROR
CRYSTAL LAKE	IL	\$13,128.00	\$13,128.00	DOD INPUT ERROR
REDWOOD CITY	CA	\$13,034.42	\$13,034.42	DOD INPUT ERROR
SPOKANE	WA	\$12,992.38	\$12,992.38	DOD INPUT ERROR
LARGO	MD	\$12,691.67	\$12,691.67	DOD INPUT ERROR
LOUISVILLE	KY	\$12,663.64	\$0.00	DOD INPUT ERROR
HUNTSVILLE	AL	\$12,503.33	\$12,503.33	DOD INPUT ERROR
EL SEGUNDO	CA	\$20,889,331.41	\$20,889,331.41	PROGRESS PAYMENT UNDER RECOUPMENT
CHICAGO	IL	\$1,910,959.70	\$1,910,959.70	PROGRESS PAYMENT UNDER RECOUPMENT
MCLEAN	VA	\$972,611.12	\$972,611.12	PROGRESS PAYMENT UNDER RECOUPMENT
LITTLETON	CO	\$852,390.88	\$852,390.88	PROGRESS PAYMENT UNDER RECOUPMENT
PRESCOTT	AZ	\$352,704.50	\$352,704.50	PROGRESS PAYMENT UNDER RECOUPMENT
EDGEWOOD	NY	\$103,651.00	\$103,651.00	PROGRESS PAYMENT UNDER RECOUPMENT
CIBOLO	TX	\$49,357.83	\$0.00	PROGRESS PAYMENT UNDER RECOUPMENT
ROUND ROCK	TX	\$1,739,747.43	\$532,069.02	SYSTEM GENERATED ERROR
WEST BEND	WI	\$67,358.90	\$0.00	SYSTEM GENERATED ERROR
	TOTAL \$	\$49,818,098.56	\$41,321,560.01	TOTAL RECOVERED TO DATE
	NUMBER	168	82.9%	RECOVERY RATE TO DATE

NOTE: ZZ STANDS FOR FOREIGN COUNTRY

## **Appendix C. OIG Risk Assessment as Required by Executive Order 13520**

### **Risk Assessment**

We assessed DoD's risk of committing improper payments as high. This risk assessment is based on auditor identified internal control weaknesses, Defense Finance and Accounting Service (DFAS) self identified control deficiencies, and prior audit coverage by the Government Accountability Office (GAO) and the DoD OIG.

DFAS issued a Self Identified Deficiencies Report that identified, among other issues:

- not all entitlement systems or areas are inputting improper payments into the Improper Payment Online Database or the Contractor Debt System;
- current improper payment reporting does not include refunds or offsets; and
- the amount reviewed for the Agency Financial Report does not correlate to the total outlays as reported on the Statement of Budgetary Resources.

Additionally, prior audit coverage has identified long-standing weaknesses in the DoD payment process and improper payments identification and reporting. GAO Report No. GAO-09-442 "Improper Payments: Significant Improvements Needed in DoD's Effort to Address Improper Payment and Recovery Audit Requirements," July 2009 found that DoD's process for addressing IPIA requirements had significant weaknesses. GAO found that DoD:

- did not conduct risk assessments for all of its payment activities;
- did not take into account the Department's long-standing financial management weaknesses when it assessed the risk of improper payments occurring as low;
- could not provide documentation supporting the methodologies used and the final risk level; and
- did not estimate improper payments for commercial pay under IPIA requirements, its largest payment activity.

Previous DoD OIG reports have found problems that contribute to the high risk rating for DoD commercial payments. For example, DoD OIG Report No. D-2010-037 "Internal Controls Over United States Marine Corps Commercial and Miscellaneous Payments Processed Through the Deployable Disbursing System," January 25, 2010 reported that "United States Marine Corps internal controls over payments processed through the Deployable Disbursing System were not adequate to ensure the reliability of the data processed. Specifically, United States Marine Corps did not:

- properly authorize 9,675 payment vouchers, totaling \$310.4 million;
- separate authorization and payment duties;
- adequately control access because it used 14 multiple user accounts and 14 generic user accounts to process a combined total of \$52.7 million payments; and
- maintain a centralized database of the transactions processed through the Deployable Disbursing System."

# Office of the Under Secretary of Defense (Comptroller)/ Chief Financial Officer Comments



COMPTROLLER

OFFICE OF THE UNDER SECRETARY OF DEFENSE  
1100 DEFENSE PENTAGON  
WASHINGTON, DC 20301-1100

JAN 28 2011

## MEMORANDUM FOR INSPECTOR GENERAL OF THE DEPARTMENT OF DEFENSE

SUBJECT: Response to Department of Defense Office of Inspector General Draft Report  
No. D2010-D000FJ-0240.000, "DoD Needs to Improve High Dollar Overpayment  
Review and Reporting"

The subject draft report, dated December 29, 2010, states that your audit group felt improvements were needed in the Department's high dollar review and reporting. We generally concur that the review and reporting for Quarter 1, Fiscal Year (FY) 2010, needed improvement. However, subsequent quarterly reporting for Quarter 2, Quarter 3, and Quarter 4 of FY 2010 already incorporated several of the changes suggested in the report, and were submitted within established suspense dates, whereas the Quarter 1 report was submitted late. The full Office of the Under Secretary of Defense (Comptroller) response is at Attachment 1.

My staff contact is [REDACTED]

A handwritten signature in black ink, appearing to read "Mark E. Easton", is positioned above the printed name and title.

Mark E. Easton  
Deputy Chief Financial Officer

Attachment:  
As stated

DEPARTMENT OF DEFENSE (DOD) OFFICE OF INSPECTOR GENERAL (OIG)  
DRAFT REPORT – DATED DECEMBER 29, 2010  
PROJECT NO. D2010-D000FJ-0240.000

“DOD NEEDS TO IMPROVE HIGH DOLLAR OVERPAYMENT  
REVIEW AND REPORTING”

OFFICE OF THE UNDER SECRETARY OF DEFENSE (COMPTROLLER) (OUSD(C))  
RESPONSES TO THE OIG RECOMMENDATIONS

OIG RECOMMENDATION 1.a.

1. We recommend that the Under Secretary of Defense (Comptroller)/Chief Financial Officer:

- a. develop a written plan and methodology to ensure adequate oversight of DoD high dollar overpayments reporting. The methodology should include:
  - (1) steps to reconcile all DoD outlays reviewed for improper payments against the Statement of Budgetary Resources gross outlays to determine whether all DoD payments and systems are being reviewed for overpayments;
  - (2) procedures for reviewing and including results of recalls, offsets, and rejects for overpayments;
  - (3) procedures to ensure that all overpayments are reviewed for high dollar overpayments and eligible for inclusion in the high dollar report; and
  - (4) procedures to review other sources for high dollar overpayments, including results from investigations, audit reports, and management reports.

OUSD(C) RESPONSE 1.a.

Concur with intent. The DoD will develop a written plan and methodology to ensure adequate oversight of DoD high dollar overpayments reporting to include the following steps:

1. The (OUSD(C)) will collaborate with the Defense Finance and Accounting Service (DFAS) to develop a methodology to reconcile as closely as possible to the quarterly Statement of Budgetary Resources to determine whether all DoD payments and systems are being reviewed for overpayments.
2. The OUSD(C) will collaborate with DFAS to establish procedures for reviewing information corrections, including recalls, offsets, and rejects, for overpayments.
3. Resource and time constraints do not allow for review of all individual overpayments for inclusion in the high dollar report. Therefore, OUSD(C) approved the use of a statistical sampling for identifying individual high dollar overpayments to accomplish the intent of

Attachment 1

Executive Order 13520. The OUSD(C) collaborated with DFAS to establish procedures to ensure all entity overpayments are reviewed for inclusion in the high dollar report based on current data sources. This began subsequent to the Quarter 1, Fiscal Year 2010, reporting.

4. Procedures to review other sources, including audit reports, results from investigations, and management reports, for high dollar improper payments, will be implemented.

OIG RECOMMENDATION 1.b.

1. We recommend that the Under Secretary of Defense (Comptroller)/Chief Financial Officer:

- b. direct the TRICARE Management Activity and other DoD Components to review the Military Health Benefits for high dollar overpayments on a quarterly basis.

OUSD(C) RESPONSE 1.b.

Partially concur. All DoD Components have been directed to review payments for high dollar overpayments on a quarterly basis. In the case of the TRICARE Management Activity (TMA), OUSD(C) will work with TMA to ensure high dollar value payments are appropriately reported.

OIG RECOMMENDATION 1.c.

1. We recommend that the Under Secretary of Defense (Comptroller)/Chief Financial Officer:

- c. disclose payment or collection areas not reviewed for high dollar overpayments, the potential impact of those areas on amounts reported, as well as plans to review all payments or collections for the Quarterly High Dollar Overpayments Report.

OUSD(C) RESPONSE 1.c.

Concur. Payment and collection areas not reviewed for high dollar overpayments will be disclosed in the quarterly reporting.

OIG RECOMMENDATION 1.d.

1. We recommend that the Under Secretary of Defense (Comptroller)/Chief Financial Officer:

- d. publish the Quarterly High Dollar Overpayments Report for public review on the DoD website within 15 days of providing the Overpayments Report to the Inspector General.

OUSD(C) RESPONSE 1.d.

Concur with intent. Our interpretation of Office of Management and Budget (OMB) implementing guidance is that it does not require the Department to post high dollar improper payments on its web site. However, DoD will continue to provide its quarterly high dollar reporting to OMB and the Treasury Department for inclusion on the Payment Accuracy web site to allow public review.



# Defense Finance and Accounting Service Comments



DEFENSE FINANCE AND ACCOUNTING SERVICE  
ARLINGTON  
1851 SOUTH BELL STREET  
ARLINGTON, VA 22240-5291

DFAS-JJ

JAN 31 2011

MEMORANDUM FOR DIRECTOR, DEFENSE FINANCIAL AUDITING SERVICE,  
OFFICE OF THE INSPECTOR GENERAL, DEPARTMENT OF  
DEFENSE (DoD)

SUBJECT: Management Comments to Draft Report "DoD Needs to Improve High Dollar  
Overpayment Review and Reporting," Dated December 29, 2010, Project D2010-  
D000FJ-0240.000

Attached are management comments to recommendations 2a-2f for subject report.

If you have questions or concerns regarding these comments your staff may contact  
[REDACTED]

A handwritten signature in black ink, appearing to read "R. Davis".

Richard D. Davis  
Acting Director, Standards & Compliance

Attachment:  
As stated

[www.dod.mil/dfas](http://www.dod.mil/dfas)  
Your Financial Partner @ Work



**Management Comments to Draft Report “DoD Needs to Improve High Dollar Overpayment Review and Reporting”, Dated December 29, 2010, Project D2010-D000FJ-0240.000**

**We recommend the Director, Defense Finance and Accounting Service:**

**Recommendation 2a:** Develop procedures and implement a methodology to statistically sampling commercial pay entitlement systems for improper payments.

**Management Comments:** Partially Concur. DFAS plans to perform a risk assessment, on College and University Financial Systems (CUFS), Finance Accounting and Budget Systems (FABS), Standard Automated Voucher Examination Systems (SAVES), Army General Fund Enterprise Business Systems (GFEBS) and Defense Agency Initiatives (DAI)) that are not currently reporting actual improper payments under our current procedure. Once the risk assessment is complete, DFAS will evaluate the need for a sampling plan based on the outcome of the assessment and our current prepayment controls. DFAS requires our network to report detailed, actual improper payments (post payment environment) monthly into the Improper Payment Online Database and or into the Contract Debt System. DFAS intends to expand into the ERP environment with the Business Activity Monitoring (BAM) pre-payment identification tool by piloting with DLAs Electronic Business Systems ERP and placing BAM like logic in DAI ERP.

Estimated Completion or Completed Date: September 30, 2012

**Recommendation 2b:** Review all civilian, military, travel, and retired and annuitant pay collections or debts for high dollar overpayments

**Management Comments:** Partially concur.

**Military and Civilian Pay.** We elected to review random samples of potential high dollar cases to determine if they met the threshold, derive root causes of overpayments, and establish the amount collected at the time of our review. Monthly, randomly selected military and civilian pay accounts with overpayments are also evaluated for the high dollar threshold.

**Travel Pay.** DFAS does not capture or review DTS or WinIATS collections. DFAS does review overpayments identified in the monthly random audits to assess compliance with a the high dollar threshold as well as any duplicate payments identified through travel pay database comparison performed by S&C's Travel Mission Area.

**Retired and Annuitant Pay.** DFAS does not review all retired and annuitant pay collections. We perform monthly random reviews of retired and annuitant pay accounts as well as comprehensive population extracts of all payments to, and collections from, deceased retirees and annuitants. Results from these sources are used to identify any high dollar improper payments.

All of the aforementioned processes are implemented consistent with applicable law and within available appropriation authority, thereby meeting the intent of Executive Order 13520.

**Estimated Completion or Completed Date:** N/A

**Recommendation 2c:** Coordinate with Military Services and Other Defense Organizations to obtain access to civilian and military personnel records and time reporting information for use when conducting post payment audits.

**Management Comments:** Partially Concur. All pay information necessary to establish entitlement is available through access to the automated pay systems (e.g., applicable entitlement screens within Defense Joint Military Pay Systems (DJMS) for Army, Navy and Air Force active and reserve components, Marine Corps Total Force System (MCTFS) for active and reserve and Defense Civilian Pay System (DCPS) for DoD civilian employees). However, in the event key information is missing, we will coordinate with the effected agency to validate entitlement using specific pay records.

**Estimated Completion or Completed Date:** N/A

**Recommendation 2d:** Review Permanent Change of Station for high dollar overpayments.

**Management Comments:** Concur. The review of civilian PCS claims is included in our FY2011 post pay review sampling plan.

**Estimated Completion or Completed Date:** July 1, 2011. First quarter FY2011 audits to be completed by April 30, 2011.

**Recommendation 2e:** Develop and implement internal controls to ensure only DoD personnel or other entitled individuals with valid Social Security Numbers receive payments from the Integrated Automated Travel System for Windows.

**Management Comments:** Concur. The Department already has internal controls to ensure only individuals with valid Social Security Numbers receive payments from the Integrated Automated Travel System (IATS). Specifically, IATS requires a unique nine digit identifier to process transactions. The IATS has pre-payment internal controls to flag claims when the same unique nine digit identifier is used by two travelers with different names within the same data base. Additionally, the claims examiners are required to check the Operational Data Store (ODS) for information on travelers before inputting claims. The ODS printout will identify the traveler, and claims examiners are to question instances when the ODS traveler and the name on the travel claim are different. When the same unique nine digit identifier is used by different individuals, and they are paid in different data bases, these payments are identified and investigated in the post payment environment. The Travel Functional Area of Standards and Compliance conducts post duplicate payment comparisons within the DFAS/Army IATS data bases to identify any potential overlapping, or duplicate payments. Once identified, the potential erroneous payments are investigated, and if found to be erroneous, we take corrective action.

**Estimated Completion or Completed Date:** Completed.

**Recommendation 2f:** Develop and implement internal controls in both the Defense Travel System and Integrated Automated Travel System for Windows to verify that payment entitlements for overlapping periods are valid prior to disbursement.

**Management Comments:** Concur. The Department already has internal controls to verify that payment entitlements for overlapping periods in the Defense Travel System (DTS) and IATS are valid prior to disbursement. Specifically, IATS and DTS contain internal edits to flag overlapping travel periods within each system's individual data base. In addition to the system edits, we have a manual internal control to validate an IATS payment it is processed. Travel examiners are required to access and review the Operational Data Store (ODS) records for each traveler before they process a claim in IATS. The ODS printout will show any previous payments made to that individual from any DFAS IATS data base. The examiner can then determine if there are any overlapping payments from that data. DFAS performs a post payment comparison between IATS payments and DTS payments. The bump looks for overlapping and duplicate payments. Once identified, the potential erroneous payment is investigated, and if found to be in error, we take appropriate collection action.

**Estimated Completion or Completed Date:** Complete.





# Inspector General Department of Defense